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TAGS: PREL PGOV ECON ETRD CH TW

SUBJECT: VICE PRESIDENT DISCUSSES ECONOMY, U.S.-TAIWAN
TRADE AND CROSS-STRAIT RELATIONS

REF: A. 08 TAIPEI 01781
1B. TAIPEI 00059
1C. 08 TAIPEI 01630
1D. TAIPEI 00152
1E. 07 TAIPEI 01670

Classified By: AIT Director Stephen M. Young, reasons 1.4 (b) and (d).

11. (C) In a February 13 meeting with AIT Director Young, Vice President Vincent Siew said Taiwan's economy faces "a very difficult year", with prospects for growth tenuous at best. According to Siew, the island's economy requires "fundamental restructuring" in order to attract foreign investment. Siew said economic recovery will depend on the resumption of U.S. consumer demand. He highlighted the struggles of the island's memory chip and flat panel screen producers as indicative of the challenges Taiwan faces because it depends on exports for growth. On U.S.-Taiwan economic ties, Siew said market access for beef should not obstruct progress on enhancing two-way trade and investment. Siew echoed recent remarks to the Director by President Ma in reporting the Ma administration would proceed more cautiously on cross-Strait relations, recognizing that many Taiwan residents are not certain that closer ties with China are in their best interests. End Summary.

Economic Difficulties Far from Over

12. (C) The Director called on the Vice President in order to hear Siew's assessment of the current state of and future prospects for the economy. Siew was frank in his assessment that the coming year will be a difficult one for Taiwan. Siew said the consumer vouchers distributed by the administration over the Lunar New Year holiday were effective in stimulating spending. However, he believes that Taiwan cannot afford another tranche of vouchers. Siew said Taiwan's economy needs "fundamental restructuring" to attract investment. Noting that the island's stock markets have been relatively stable, he said the administration still hopes to achieve at least "non-negative" economic growth in 2009, while acknowledging numerous private sector projections of negative GDP growth this year. (Note: The official GDP growth forecast is 2.12 percent, a figure that will likely be revised downward when new economic data are released this month. End Note.)

13. (C) In contrast to his prediction in late December (Ref. A) that Taiwan's export volume would rebound in the second half of 2009, Siew today said it was too early to predict when the economic downturn would end. Siew said recovery in

Taiwan will depend on a resumption of growth in U.S. consumer demand.

High Technology Sectors a Concern

14. (C) In particular, Siew highlighted the problems Taiwan's DRAM (memory) chip manufacturers face (Ref. B). Siew asserted the administration's commitment to assisting the troubled sector, although he said the administration was not contemplating a bailout for any particular firm. In stead, according to Siew, the focus is on coming up with a package that strengthens Taiwan's competitiveness in the global DRAM market through acquiring manufacturing technology from Japanese or U.S. firms in partnership with Taiwan chip makers. In response to the Director's query, Siew acknowledged the DRAM industry is strategically important for Taiwan.

15. (C) The Director asked about the similar difficulties facing the island's flat panel producers (Reg. C), noting that the single largest U.S. investor in Taiwan is Corning Display Technologies Co., which produces the glass for these display panels. Unlike the DRAM industry, Siew carefully did not characterize the panel industry as strategic. Rather, he noted that Taiwan's two largest screen manufacturers, Chi Mei Optoelectronics and AU Optronics, had recently received large orders from China and would probably not suffer significant losses over the next six months, though their profitability beyond that period is less certain.

U.S.-Taiwan Economic Ties

16. (C) Siew took the initiative to say the administration is moving toward complete opening of Taiwan's market to U.S. beef imports, saying Health Minister Yeh Chin-chuan knows what needs to be done to assuage public concerns about food safety. The Director noted that President Ma recently told him the administration is actively working to resolve outstanding issues. Siew said the beef issue should not present an impediment to progress on trade and investment talks or other areas of mutual interest.

17. (C) Regarding on-going efforts to make progress in the trade and investment framework agreement (TIFA) talks, Siew said further liberalizing trade, investment and taxation are reachable goals and urged resumption of the TIFA process as soon as possible. The Director said he would convey Taiwan's position to USG officials, noting that key senior-level positions in USTR remain unfilled. But the Director intends to follow up during his late February consultations in Washington.

18. (C) In reply to the Director's inquiry about progress on Taiwan's accession to the WTO government procurement agreement (GPA), Siew said he was confident that accession would get LY approval, although when is difficult to predict.

(Note: Public Construction Commission contacts tell us that the GPA accession agreement is a priority item for consideration when the LY reconvenes on February 20. End Note.) The Director noted that GPA accession would not only benefit U.S.-Taiwan economic ties, it would also enhance Taiwan's ties with Japan and the EU.

Cross-Strait Relations: A Slower Approach

19. (C) Siew described the PRC as a 'secondary' market for Taiwan exports, saying the U.S. remains the most important market for the island's manufacturers. Regarding Ma administration efforts to encourage Taiwan companies to redirect capital back to the island (Ref. D), Siew said, with the exception of Hon Hai Precision Industries, he knows of no concrete examples of significant investment by China-based

Taiwan companies. He seemed pessimistic that returning Taiwan capital would revitalize the island's economy.

¶10. (C) In regard to progress on economic ties with the PRC, Siew appeared to distance himself from his earlier advocacy of a cross-Strait common market (Ref. E). According to Siew, China is interested in a Comprehensive Economic Cooperation Agreement (CECA), but Taiwan must carefully evaluate the positive and negative aspects of such an arrangement. Siew said people often tell him they are not certain that growing cross-Strait economic integration is in Taiwan's best interest. Siew suggested that the Ma administration has recognized the political downside of liberalizing trade and investment relations with the Mainland, saying it will proceed more cautiously in coming months.

¶11. (C) The Director, noting that he will be briefed on Secretary Clinton's trip to China while he is in Washington, reiterated U.S. support for measures that reduce cross-Strait tensions. Siew said strong ties with the U.S. and Japan are prerequisites for the Taiwan public to feel confident Ma is taking the right approach to improving relations with Beijing.

Comment

¶12. (C) Siew's emphasis on the importance of U.S. Taiwan ties, in comparison with cross-Strait relations, is a reminder that Taiwan's security and level of confidence depend heavily on U.S. support. Siew's comments reinforce President Ma's recent statement to the Director that he is quietly putting the brakes on cross-Strait ties, possibly in connection with his current focus on successfully resolving WHA in May.

SYOUNG